

FISCAL NOTE

HB 2965

February 14, 2008

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 4.5 percent. Requires professional athletes and professional coaches to register with the Department of Commerce and Insurance (C&I) prior to participating in any athletic event in Tennessee and to pay the department an annual registration fee of \$100. Requires C&I to issue registration cards to each athlete or coach competing in Tennessee. Requires professional athletes and coaches to pay occupational privilege tax based on annual earnings: athletes or coaches earning more than \$50,000 per year pay \$1,000 for each \$50,000 of salary each year; athletes or coaches earning less than \$50,000 pay \$400 per year

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact - \$26,280,500/FY08-09

Decrease State Revenue – Net Impact - \$17,109,000/FY09-10 and thereafter

**Increase State Expenditures - \$97,600/One-Time
\$143,700/Recurring**

Decrease Local Revenue - \$2,088,500/FY08-09

\$4,177,000/FY09-10 and thereafter

Assumptions applied to reducing the sales tax on food:

- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.
- According to the Department of Revenue, state sales tax collections derived from the sale of food and food ingredients in Tennessee for FY06-07 were approximately \$495,000,000.
- The state sales tax rate on food and food ingredients was 6.0% during FY06-07.
- FY06-07 taxable food sales were approximately \$8,250,000,000 (\$495,000,000 ÷ 6.0% = \$8,250,000,000).

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- Annual growth in taxable sales is estimated to be 5.0% per year (consumer price index on food prices increased 4.9% from December 2006 to December 2007).
- Adjusted taxable sales are estimated to be \$9,095,625,000 for FY08-09.
- The decrease of state sales tax revenue resulting from the proposed 1.0% rate reduction for food sales is estimated to be \$90,956,000 ($\$9,095,625,000 \times 1.0\% = \$90,956,250$) in FY08-09.
- The estimated \$90,956,000 in state sales tax revenue would have been apportioned as follows in FY08-09: \$26,400,000 to the General Fund, \$59,210,000 to education, \$4,177,000 to local governments, \$334,000 to the Department of Revenue, and \$835,000 to the Sinking Fund.
- The net decrease to state revenues for FY08-09 is estimated to be \$86,779,000 ($\$90,956,000 - \$4,177,000 \text{ local share} = \$86,779,000$).
- Local governments are not held harmless from the loss of state-shared sales tax revenue (\$4,177,000 in FY08-09).
- The state will forgo additional sales tax revenue in subsequent years due to the natural growth of taxable food sales.
- The impact for reducing the sales tax on food for FY08-09 is estimated at 50% of the first full year impact due to the effective date.

Assumptions applied to the occupational privilege tax:

- Athletes and coaches who compete within the state boundaries are assumed to be liable for the proposed occupational privilege tax.
- Athletes and coaches who play for or coach the Tennessee Titans (NFL), Memphis Grizzlies (NBA), Nashville Predators (NHL), and athletes playing for other teams which these Tennessee teams compete are assumed to earn more than \$50,000 per year.
- Race drivers who compete within the state for NASCAR, the NASCAR Busch Grand National Division, and the Indy Racing League are assumed to earn more than \$50,000 per year.
- The number of athletes and coaches either visiting the state to compete or who play for or coach for the above Tennessee teams is estimated to be 1,700 per year.
- NFL players and coaches, NHL players and coaches, NBA players and coaches, and NASCAR drivers are estimated to earn an average salary of \$2,000,000 per year. Such individuals will pay \$1,000 of each \$50,000 of salary. The increase of privilege tax revenue from these individuals is estimated to be \$68,000,000 [$(\$2,000,000 \div \$50,000) \times \$1,000 \times 1,700 \text{ individuals} = \$68,000,000$] per year.
- Athletes and coaches who play for or coach the Nashville Sounds (AAA baseball), the Memphis Redbirds (AAA baseball), the Tennessee Smokies (AA baseball), the West Tennessee Diamond Jaxx (AA baseball), the Chattanooga Lookouts (AA baseball), the Elizabethton Twins

(Appalachian League), the Johnson City Cardinals (Appalachian League), the Kingsport Mets (Appalachian League), the Chattanooga Locomotion (National Women's Football Association or NWFA), the Knoxville Summitt (NWFA), the Nashville Dream (NWFA), the Kingsport Ice Bears (ACHL Hockey), or any other unnamed professional team, and the athletes and coaches playing for or coaching other teams which these Tennessee teams compete are assumed to earn less than \$50,000 per year. The number of players and coaches for these teams and the teams which they compete against in Tennessee is estimated to be 3,000 in any given year.

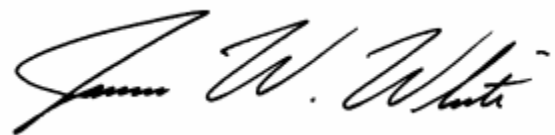
- The increase of privilege tax revenue from these individuals is estimated to be \$1,200,000 (3,000 individuals x \$400 tax = \$1,200,000) per year.
- The total increase to occupational privilege tax is estimated to be \$69,200,000 (\$68,000,000 + \$1,200,000 = \$69,200,000) per year.
- Two additional Taxpayer Services Representatives for the Department of Revenue estimated to be \$81,700 per year.
- One-time state expenditures for computer enhancements and software modifications estimated to be \$87,600.

Assumptions applied to registration with Commerce and Insurance:

- Total number of players and coaches required to pay the annual registration fee is estimated to be 4,700 (1,700 + 3,000 = 4,700) per year.
- The increase to state revenue derived from registration fees is estimated to be \$470,000 (4,700 individuals x \$100 fee = \$470,000) per year.
- One additional position for C&I for issuing registration cards, collecting registration fees, and administering the other provisions of the bill estimated to be \$62,000 per year (salary, benefits, supplies, etc.).
- One-time state expenditures of \$10,000 for computer and software for additional position and office supplies.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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